

AMERICAN LEGION HOSPITAL**FINANCIAL REPORT****DECEMBER 31, 2009**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
American Legion Hospital
Crowley, Louisiana

We have audited the accompanying consolidated balance sheets of American Legion Hospital (a nonprofit organization) and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Legion Hospital as of December 31, 2009 and 2008, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2010, on our consideration of American Legion Hospital's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Broussard, Poché, Lewis & Breau, L.L.P.

Crowley, Louisiana
June 11, 2010

AMERICAN LEGION HOSPITAL
CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,659	\$ 1,423
Certificates of deposit	2,640	3,005
Patient accounts receivable, net of estimated uncollectibles of \$2,829 and \$2,113 at 2009 and 2008, respectively	8,071	7,351
Intermediary receivable on cost reports	203	836
Other receivables	26	139
Inventories	1,049	1,009
Prepaid expenses	802	757
Notes receivable	<u>251</u>	<u>299</u>
Total current assets	<u>\$ 14,701</u>	<u>\$ 14,819</u>
OTHER ASSETS		
Assets limited as to use:		
Cash and cash equivalents	\$ 1,527	\$ 1,226
Certificates of deposit	8,091	6,510
Investments	996	971
Investments - stock	73	73
Notes receivable	236	390
Restricted assets:		
Cash and cash equivalents	16	13
Certificates of deposit	<u>256</u>	<u>258</u>
Total other assets	<u>\$ 11,195</u>	<u>\$ 9,441</u>
PROPERTY, PLANT AND EQUIPMENT, less accumulated depreciation of \$20,698 at 2009 and \$22,798 at 2008		
	<u>\$ 11,297</u>	<u>\$ 8,972</u>
Total assets	<u>\$ 37,193</u>	<u>\$ 33,232</u>

See Notes to Consolidated Financial Statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,134	\$ 1,538
Intermediary payable on cost reports	204	-
Health insurance claims payable	187	195
Notes payable, due in one year	2,351	-
Accrued expenses	<u>755</u>	<u>652</u>
Total current liabilities	<u>\$ 4,631</u>	<u>\$ 2,385</u>
LONG-TERM LIABILITIES		
Notes payable, due after one year	\$ 944	\$ -
Long-term accrued expenses	<u>10</u>	<u>9</u>
Total long-term liabilities	<u>\$ 954</u>	<u>\$ 9</u>
MINORITY INTEREST IN SUBSIDIARY	<u>\$ 142</u>	<u>\$ 169</u>
NET ASSETS		
Unrestricted	\$ 31,194	\$ 30,398
Permanently restricted - trust	<u>272</u>	<u>271</u>
Total net assets	<u>\$ 31,466</u>	<u>\$ 30,669</u>
Total liabilities and net assets	<u>\$ 37,193</u>	<u>\$ 33,232</u>

AMERICAN LEGION HOSPITAL
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2009 and 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS:		
Unrestricted revenue:		
Net patient service revenue - hospital	\$ 36,100	\$ 35,533
Net patient service revenue - clinic practices	699	744
Net patient revenue - Open Air MRI	<u>1,011</u>	<u>984</u>
Net patient service revenue	\$ 37,810	\$ 37,261
Other operating revenue	<u>526</u>	<u>561</u>
Total operating revenue	<u>\$ 38,336</u>	<u>\$ 37,822</u>
Operating expenses:		
Routine and nursing services	\$ 10,991	\$ 10,374
Ancillary services	10,568	10,160
Physician offices	762	789
Administrative services	967	920
Fiscal and support services	5,532	5,205
General services	4,020	4,365
Depreciation and amortization	1,244	1,073
Interest	48	-
Provision for doubtful receivables	<u>3,551</u>	<u>3,989</u>
Total operating expenses	<u>\$ 37,683</u>	<u>\$ 36,875</u>
Excess of operating revenue over operating expenses	<u>\$ 653</u>	<u>\$ 947</u>
Nonoperating revenue (expense):		
Interest revenue	\$ 308	\$ 420
Net unrealized gain/(loss) on investments	10	(4)
Other	<u>(15)</u>	<u>34</u>
Total non-operating revenue	<u>\$ 303</u>	<u>\$ 450</u>
Increase in unrestricted net assets before minority interest	\$ 956	\$ 1,397
Minority interest	<u>(160)</u>	<u>(168)</u>
Increase in unrestricted net assets	\$ 796	\$ 1,229
PERMANENTLY RESTRICTED ASSETS (TRUST):		
Interest revenue net of transfers	<u>1</u>	<u>1</u>
Increase in net assets	<u>\$ 797</u>	<u>\$ 1,230</u>

See Notes to Consolidated Financial Statements.

AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2009 and 2008
(In Thousands)

	<u>Unrestricted</u>	<u>Permanently Restricted- Trust</u>	<u>Total</u>
Balance - December 31, 2007	\$ 29,169	\$ 270	\$ 29,439
Increase in net assets	<u>1,229</u>	<u>1</u>	<u>1,230</u>
Balance - December 31, 2008	\$ 30,398	\$ 271	\$ 30,669
Increase in net assets	<u>796</u>	<u>1</u>	<u>797</u>
Balance - December 31, 2009	<u>\$ 31,194</u>	<u>\$ 272</u>	<u>\$ 31,466</u>

See Notes to Consolidated Financial Statements.

AMERICAN LEGION HOSPITAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008
(In Thousands)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 797	\$ 1,230
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,244	1,073
Loss on disposal of assets	20	-
Provision for doubtful receivables	3,551	3,989
Other - minority interest	(27)	2
Net unrealized (gain) loss on investments	(10)	4
Change in current assets and liabilities:		
(Increase) decrease in receivables	(3,321)	(4,516)
(Increase) decrease in inventories	(40)	(72)
(Increase) decrease in prepaid assets	(45)	33
(Increase) decrease in notes receivable	202	608
(Decrease) increase in payables	(412)	627
(Decrease) increase in accrued expenses	<u>103</u>	<u>43</u>
Net cash provided by operating activities	<u>\$ 2,062</u>	<u>\$ 3,021</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of treasury bills	\$ -	\$ 49
Purchase of investments	(15)	(33)
Purchase of certificates of deposit, net of renewals	(1,214)	(1,547)
Purchase of property and equipment	(3,611)	(1,133)
Proceeds from sale of property and equipment	<u>22</u>	<u>-</u>
Net cash used in investing activities	<u>\$ (4,818)</u>	<u>\$ (2,664)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term borrowing	\$ (258)	\$ (1)
Proceeds from issuance of notes payable	<u>3,554</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>\$ 3,296</u>	<u>\$ (1)</u>
Increase in cash and cash equivalents	<u>\$ 540</u>	<u>\$ 356</u>
(subtotals forward)		

(Continued)

AMERICAN LEGION HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2009 and 2008

(In Thousands)

	<u>2009</u>	<u>2008</u>
Increase in cash and cash equivalents (subtotals forwarded)	\$ 540	\$ 356
Cash and cash equivalents:		
Beginning	<u>2,662</u>	<u>2,306</u>
Ending	<u>\$ 3,202</u>	<u>\$ 2,662</u>
CASH AND CASH EQUIVALENTS SHOWN ON BALANCE SHEETS		
Cash and cash equivalents	\$ 1,659	\$ 1,423
Restricted and assets limited as to use cash and cash equivalents	<u>1,543</u>	<u>1,239</u>
	<u>\$ 3,202</u>	<u>\$ 2,662</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 55</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements.

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AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

American Legion Hospital (the "Hospital") is incorporated under the State of Louisiana as a nonprofit corporation for scientific, educational, charitable, and patriotic purposes. The Hospital provides inpatient, outpatient and emergency care services for residents of Acadia Parish and the surrounding area.

Principles of consolidation:

The consolidated financial statements include the accounts of Professional Arts Center, Inc., a 67% owned subsidiary of the Hospital. Also included in the consolidated financial statements is Open Air MRI of Acadiana, L.L.C., a 51% owned subsidiary of the Hospital. All significant intercompany accounts and transactions have been eliminated.

Significant accounting policies:

The Hospital reports in accordance with the "Health Care Organizations Audit Guide" published by the American Institute of Certified Public Accountants. Accounting policies that are unique to nonprofit hospitals are as follows:

Funds restricted as to use by the donor are recorded in restricted net assets and resources set aside for board designated funds are considered to be unrestricted.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Other accounting policies followed by the Hospital which are not unique to hospital reporting are as follows:

Treasury notes and treasury bills are stated at amortized cost, which approximates fair value.

Inventories are stated at the lower of cost or market. As applied to cost, the standard cost method (which approximates last-in, first-out) is used to value inventory items.

Loan costs are amortized over the life of the loan using the straight-line method.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital is capitalized as a component of the cost of acquiring those assets.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. A review of such assets of the Hospital has not indicated any material effect on the Hospital's financial position.

Patient accounts receivables are carried at the original billed amount less deductions for contractuals and other discounts as well as an estimate for uncollectible accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for uncollectible accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Patient accounts receivables are written-off when deemed uncollectible which occurs after management has used reasonable collection efforts. Recoveries of patient accounts receivables previously written-off are recorded when received. The Hospital does not have a policy of charging interest on past due balances in patient accounts receivable.

For purposes of reporting cash flows, the Hospital considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

All costs associated with advertising and marketing are expensed in the year incurred. Advertising expense for the years ended December 31, 2009 and 2008 amounted to \$37 and \$36, respectively.

Recent pronouncements -

In May 2009, the FASB issued ASC 450-20-50-9/Statement No. 165, *Subsequent Events*. This Statement is effective for financial periods ending after June 15, 2009. As such, the Hospital adopted the provisions of this Statement in 2009. This Statement establishes principles and requirements for subsequent events. In particular, this Statement addresses the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. Subsequent events occurring after December 31, 2009 were evaluated through June 11, 2010 (the date the financial statements were available to be issued). The adoption of these provisions did not have any effect on the financial statements of the Hospital as of December 31, 2009.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 2. Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

•**Medicare** - Inpatient acute care services (and related capital costs) and inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's outpatient services related to Medicare beneficiaries are reimbursed either on a prospective determined rate or a fee schedule. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006.

•**Medicaid** - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits, while other outpatient services are reimbursed on a fee schedule. The Hospital is reimbursed for outpatient services at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2006.

Estimated amounts due from Medicare and Medicaid services are included in receivables at year-end. During the years ended December 31, 2009 and 2008, approximately 76% and 75%, respectively, of the Hospital's gross inpatient revenue was furnished to Medicare and Medicaid beneficiaries, while 57% and 58%, respectively, of the Hospital's gross outpatient revenue was furnished to Medicare and Medicaid beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term. As a result of retroactive adjustments of certain prior year cost reports, the Hospital recorded changes in estimates resulting in an increase in net patient service revenues of approximately \$4 and \$69 during the years December 31, 2009 and 2008, respectively.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 3. Notes Receivable

The detail of notes receivable at December 31, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Notes receivable - employees, net of allowance of \$16 and \$17, respectively	\$ 106	\$ 121
Notes receivable - physician, net of allowance of \$0 and \$111, respectively	374	541
Notes receivable - other	<u>7</u>	<u>27</u>
	<u>\$ 487</u>	<u>\$ 689</u>

In the normal course of business, the Hospital contracts with non-employee physicians that it has recruited to move to the facility's geographical area to establish a practice. Under the contract, the Hospital normally makes payments for medical education debt, net income guarantees, stipends and capital purchases. These payments are considered a loan and must be paid back by the physician, unless certain terms under the contract are met including years of practice within the area. Normally, if all conditions are met under the contract these payments are amortized, to expense, over the contract term.

The Hospital also contracts with employees, whereby the Hospital loans specified amounts to the employee for medical education. These payments are amortized over the terms of the contract upon the employees' completion of specified education. If terms of the contract are not met, the employee is required to reimburse the Hospital the unamortized amount.

Note 4. Assets Limited as to Use

The composition of assets limited as to use at December 31, 2009 and 2008 is set forth in the following table. Investments are stated at fair value.

Board designated for improvements and replacement of Hospital assets as they are retired and for insurance losses that may be within the policy deductibles:

	<u>2009</u>	<u>2008</u>
Cash	\$ 233	\$ 40
Certificates of deposit	7,235	5,906
Louisiana Hospital Investment Pool	<u>586</u>	<u>571</u>
	<u>\$ 8,054</u>	<u>\$ 6,517</u>

Board designated for self-insurance program for hospitalization and medical coverage for the employees of the Hospital:

	<u>2009</u>	<u>2008</u>
Cash	\$ 1,294	\$ 1,186
Certificates of deposit	856	604
Louisiana Hospital Investment Pool	<u>410</u>	<u>400</u>
	<u>\$ 2,560</u>	<u>\$ 2,190</u>
Total assets limited as to use	<u>\$ 10,614</u>	<u>\$ 8,707</u>

Income derived from the Board designated funds at December 31, 2009 and 2008 was \$235 and \$364, respectively.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 4. Assets Limited as to Use (Continued)

Investments held in the Louisiana Hospital Investment Pool are carried at market or appraised value, and realized and unrealized gains and losses are reported in the statements of operations. Activity for the years ended December 31, 2009 and 2008 is summarized below:

	2009	2008
Investments, beginning of year	\$ 971	\$ 942
Investment returns (net of expenses, of \$3 for 2009 and 2008):		
Interest revenue	\$ 15	\$ 33
Net unrealized gain (loss)	10	(4)
Total return on investments	25	29
Investments, end of year	<u>\$ 996</u>	<u>\$ 971</u>

Note 5. Property, Plant and Equipment

The details of property, plant and equipment and the related accumulated depreciation at December 31, 2009 and 2008 are summarized as follows:

	2009		2008	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 694	\$ -	\$ 694	\$ -
Land improvements	668	568	668	540
Building and improvements	14,644	9,914	14,835	9,860
Equipment	13,553	10,216	15,443	12,398
Construction in progress	2,436	-	130	-
	<u>\$ 31,995</u>	<u>\$ 20,698</u>	<u>\$ 31,770</u>	<u>\$ 22,798</u>

Included in the above, construction in progress includes amounts dealing with the northern building expansion and a new health information system for the Hospital. The amount of interest capitalized in the years ended December 31, 2009 and 2008 was \$30 and \$0, respectively.

Depreciation expense for the years ended December 31, 2009 and 2008 amounted to \$1,244 and \$1,073, respectively.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 6. Trust Agreement (Permanently Restricted Net Assets)

On July 23, 1993, the Hospital placed \$250 into trust. American Legion Post 15 is the income beneficiary and the Hospital is the principal beneficiary. The Post will receive 90% of the income derived from the trust's investments. The remaining 10% can be used to pay expenses of the trust. Any remaining income after expenses is to be reinvested. Investments are stated at amortized cost, which approximates fair value.

The assets of the trust are as follows:

	<u>2009</u>	<u>2008</u>
Cash in bank	\$ 16	\$ 13
Certificate of deposit	<u>256</u>	<u>258</u>
Total	<u>\$ 272</u>	<u>\$ 271</u>

Note 7. Employee Retirement Plan

The Hospital offers a profit sharing plan to its employees. New participants must have one year of service in order to be eligible in the plan. The Hospital contributions vest over a six year graded vesting schedule for the years ended 2009 and 2008. All participants must have worked 1,000 hours (including prior year service) and be employed by the Hospital at December 31 of the plan year in order to be eligible to share in the Hospital's contributions. Contributions to the plan are at the discretion of the Hospital's board. The Hospital's contributions to the plan for the years ended December 31, 2009 and 2008 were \$134 and \$122, respectively.

The Hospital also offers a 403(b) plan that is available to all Hospital employees, in which only employees contribute to the plan.

Note 8. Concentrations of Credit Risk

The Hospital maintains multiple accounts at several local financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. During the year, the Hospital maintained deposits in this financial institution that exceeded the FDIC coverage. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables at December 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	26%	23%
Medicaid	12	13
Other third-party payors and patients	<u>62</u>	<u>64</u>
	<u>100%</u>	<u>100%</u>

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 34,286	\$ 33,184
General and administrative	<u>3,397</u>	<u>3,691</u>
	<u>\$ 37,683</u>	<u>\$ 36,875</u>

Note 10. Charity Care

The amount of charges forgone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$377 and \$355 in 2009 and 2008, respectively. The Hospital believes that a significant amount of the provision for doubtful receivables would qualify as charity care. However, due to lack of documentation provided by patients, it cannot be reclassified as such.

Note 11. Commitments and Contingencies

Self-Insured Medical Benefits

The Hospital has a self-insurance program for hospitalization and medical coverage for substantially all of its employees. The Hospital limits its liability through the use of a specific stop-loss policy from a reinsurer in an amount of \$100 per person per plan year 2009 - 10, 2008 - 09 and 2007 - 08. Management believes they have adequately provided for all claims incurred in the accompanying financial statements.

Professional Liability Risk

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400 in coverage per occurrence above the first \$100 for which the Hospital is at risk. In connection with the establishment of the Patient's Compensation Fund, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100 per occurrence and limiting the Patient's Compensation Fund's exposure to \$400 per occurrence.

Assets limited as to use include a certificate of deposit in the amount of \$125 at December 31, 2009 and 2008, which is pledged to secure membership in the Louisiana Patient's Compensation Fund.

Litigation

The Hospital is involved in litigation arising in the course of business. The Hospital evaluates contingencies based upon the best available evidence. After consultation with legal counsel, management has recorded a provision for these claims in an amount of \$100 for 2009 and \$75 for 2008, which is included in payables on the financial statements. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands)

Note 11. Commitments and Contingencies (Continued)

Included in the litigation explained in the above paragraph, the Hospital is a defendant in a professional liability case alleging permanent nerve injury to a patient's arm from an intravenous injection given by the Hospital. No amount has been accrued in the financial statements since the outcome of the matter is uncertain, and since the resulting liability, if any, cannot be determined. However, it is at least reasonably possible that a liability could result in the near term. As stated above, under Louisiana Patient's Compensation Fund, the Hospital's exposure for medical professional liability is limited to \$100 per occurrence.

Purchase Commitments

I.V. Pumps

Effective June 1, 2001, the Hospital entered into an agreement to lease seventy-five I.V. pumps at no charge with a purchase commitment of nine disposable units per year for seven years. Effective October 1, 2004, this agreement was amended to lease ninety I.V. pumps at no charge with a purchase commitment of 11 disposable units per year for the same term as the original agreement. In 2008, the Hospital extended the lease for a one year period ending in May of 2009. Total purchases under this commitment were \$21 and \$52 in 2009 and 2008, respectively.

Note 12. Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2010. Total rental expense in 2009 and 2008 was \$20 and \$17, respectively. The following are the remaining future minimum lease payments under operating leases as of December 31, 2009 that have remaining lease terms.

2010	\$ 8
------	------

Note 13. Breakdown of Consolidated Net Income

	American Legion Hospital	Professional Arts Center	Open Air MRI	Total	Elimination Entries	Consolidated Total
<u>2009</u>						
Net income (loss)	\$ 818	\$ 1	\$ 327	\$ 1,146	\$ (349)	\$ 797
<u>2008</u>						
Net income (loss)	\$ 1,232	\$ (5)	\$ 345	\$ 1,572	\$ (342)	\$ 1,230

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 14. Fair Value of Financial Instruments

In accordance with SFAS No. 157, the Hospital groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements at Reporting Date Using

		2009			
		<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Louisiana Hospital					
Investment Pool		\$ 996	\$ -	\$ -	\$ 996
		2008			
		<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Louisiana Hospital					
Investment Pool		\$ 971	\$ -	\$ -	\$ 971

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 14. Fair Value of Financial Instruments (Continued)

Louisiana Hospital Investment Pool securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs Level 3	
	2009	2008
Beginning balance	\$ 971	\$ 942
Net unrealized gain (loss)	10	(4)
Purchases - interest income reinvested	15	33
Ending balance	<u>\$ 996</u>	<u>\$ 971</u>

Note 15. Long-Term Debt

A summary of long-term debt at December 31, 2009 and 2008 consists of the following:

	2009	2008
<u>Long-term debt:</u>		
Bank of Commerce, Crowley, LA dated July 8, 2009, with quarterly interest payments to begin on October of 2009 with a balloon payment of all outstanding principal and accrued interest at a rate of 5% per annum due on July 8, 2010. This note is a multiple advance loan up to \$3,650 in principal. Advances through December 31, 2009 total \$2,054, leaving \$1,596 in remaining advances available. The loan is secured by the collateral mortgage, dated February 1992, in the amount of \$5,000 and a commercial security agreement pledging all furniture and equipment.	\$ 2,054	\$ -
Evangeline Bank and Trust Company, dated January 12, 2009, with monthly payments of \$28 for 60 months beginning February 2009 at a variable interest rate which is based on the independent index plus 1%; the rate at December 31, 2009 is 3.15%, secured by Hospital certificates of deposit.	1,241	-
	<u>\$ 3,295</u>	<u>\$ -</u>
Less current portion	<u>2,351</u>	<u>-</u>
Long-term obligation	<u>\$ 944</u>	<u>\$ -</u>

AMERICAN LEGION HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Note 15. Long-Term Debt (Continued)

Aggregate maturities on long-term debt are as follows at December 31, 2009:

<u>Year Ending</u>	<u>Principal</u>
2010	\$ 2,351
2011	307
2012	316
2013	321
	<u>\$ 3,295</u>

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Ralph Friend, CPA 2002
Donald W. Kelley, CPA 2003
George J. Trappey, III, CPA 2007
Terrel P. Dressel, CPA 2007
Herbert Lemoine II, CPA 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
American Legion Hospital
Crowley, Louisiana

We have audited the consolidated financial statements of American Legion Hospital (a nonprofit organization) and subsidiaries as of and for the year ended December 31, 2009, and have issued our reports thereon dated June 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Legion Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Legion Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of American Legion Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of American Institute of
Certified Public Accountants
Society of Louisiana Certified
Public Accountants

* A Professional Accounting Corporation

To the Board of Directors
American Legion Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the American Legion Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the American Legion Hospital's management, Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Brasard, Poche, Lewis & Brum, L.L.P.

Crowley, Louisiana
June 11, 2010

AMERICAN LEGION HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

We have audited the consolidated financial statements of American Legion Hospital as of and for the year ended December 31, 2009, and have issued our report thereon dated June 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the consolidated financial statements as of and for the year ended December 31, 2009, resulted in an unqualified opinion.

Section I. Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☐ Yes ☒ No Significant deficiency identified that is not considered to be a material weakness ☐ Yes ☒ No

Compliance

Noncompliance Material to Financial Statements ☐ Yes ☒ No

Was a management letter issued ☐ Yes ☒ No

b. Federal Awards

The Hospital does not have any federal awards.

Section II. Financial Statement Findings

There were no findings noted in this year's audit.

Section III. Federal Award Finding and Questioned Costs

The Hospital does not have any federal awards.

AMERICAN LEGION HOSPITAL
SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended December 31, 2009

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT

Section I. Internal Control and Compliance Material to the Financial Statements

The prior year's report did not include any findings.

Section II. Internal Control and Compliance Material to Federal Awards

The prior year's report did not include any federal awards.

Section III. Management Letter

The prior year's report did not include a management letter.